

# **Inequality and Minimum Wage Policy: Not even talking, much less walking in Mexico**

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## **Abstract**

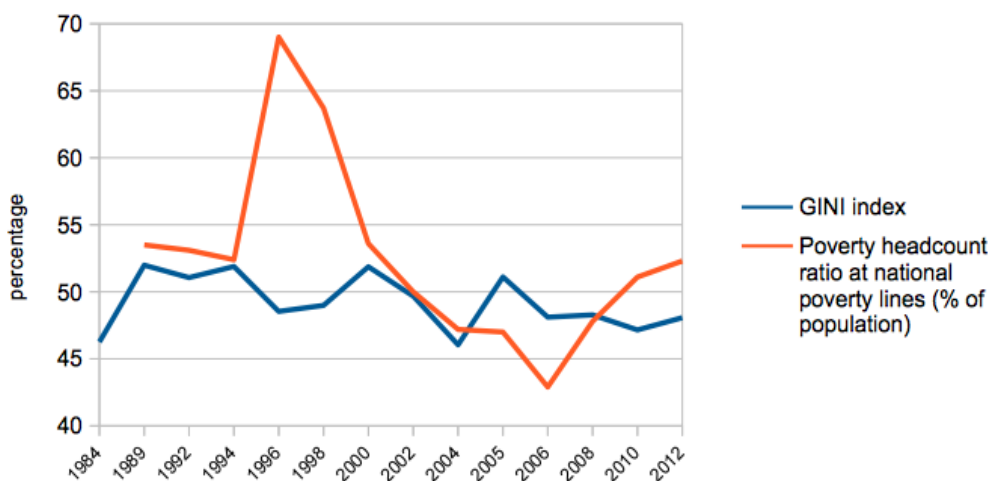
This paper examines the evolution of economic inequality in Mexico in the last three decades, both in terms of the personal distribution and the functional distribution of income, exploring the question of how much of its evolution is determined by economic or social policies. The second purpose of our paper is to analyze the relation between the evolution of the functional distribution of income and labor policy, with special emphasis on minimum wage policy. Finally our third objective, closely linked to the previous two, is the examination of the institutional context as well as the ideological and political economy considerations that have marked minimum wage policy in Mexico in view of recent attempts to bring the debate back to the forefront of the political agenda. As such, our analysis will pay special attention to events since May 1<sup>st</sup> 2014, when the Governor of Mexico City launched a national discussion on the urgent need, ways and means to renovate minimum wage policy in Mexico. In our view, this debate is so far the only expression in Mexico of the current re-found concerted focus on inequality on a global scale, an expression that has woken up fierce opposition from the Mexican elite.

**Keywords:** inequality, income distribution, minimum wage, Mexico

## 1. Introduction

Since the mid-1980s Mexico has embarked on a process of radical macroeconomic reforms aimed as the government has tirelessly stated – at eliminating the acute distortions in resource allocation brought about by decades of State intervention, trade protection and non-focalized poverty programs. As is well recognized, this strategy has so far failed to secure a path of high and sustained robust economic development. Not much is known about the evolution of inequality during this period at the level of the highest percentile, besides the fact that some of the richest men in the world are Mexicans and that the country has the second highest number of billionaires in Latin America (after Brazil) (Alexander 2014, See however, Cortes 2010 and 2013; Samaniego, 2014). In a first approximation to assess the success of the trinity of goals – economic growth, poverty reduction and inequality decrease – Figure 1 shows the evolution of the percentage of the population living under the poverty line and of inequality according to the Gini coefficient in

**Figure 1: Poverty and Inequality in Mexico, 1984-2012**



Source: authors' elaboration based on data from LIS (2015)

Mexico from the 1980s until today.

A number of stylized facts can be deduced from these crude data. Firstly, poverty is still pervasive in Mexico. Considering that the country, with a GDP of US \$1.178 trillion, ranks as the 14<sup>th</sup> largest economy in the world (World Bank 2014), it is a disappointing result that after decades of anti-poverty policy over 52% of the population remains poor. Moreover, Mexico is rich in natural resources, and its GDP per capita of US\$9,750 puts it just beneath the world average (US\$10,300). Nonetheless, and notwithstanding its extraordinary boom in exports of manufactures, in 1980-2013 the economy expanded at such a slow pace that the gap of Mexico's GDP per capita vis-à-vis that of the United States is larger today than thirty years ago. It should not be surprising then that today

more than half of its population is poor, a proportion similar to the one prevailing in 1980. It means that more than 55 million Mexicans live in conditions of poverty. The figure also shows that, despite some advances in the late 1990s and early 2000s, since 2006 poverty has been on the rise again.

Secondly, inequality remains outrageously high, independently of small changes over the turbulent past quarter century. Unfortunately, for decades in Mexico like in many developing countries, inequality was of little interest for economists. Until recently it was recognized as a challenge for social policy makers and it was seen as having no impact on economic growth. Those that were concerned with equality conceived it as a by-product of the specific developmental stage which countries underwent in line with Kuznets' inverted-U path. Given Mexico's traditional fiscal weakness – a tax burden under 12% of GDP, among the lowest in Latin America – inequality and poverty were tackled through income transfers and public expenditure on health, social security and education. This approach to poverty and inequality marked the radical neoliberal reforms put in place since the mid 1980s to reduce State's intervention in the economy and open domestic markets to foreign competition under the assumption that economic growth and focalized cash transfer programs would *pari passu* ensure systematic poverty and inequality reduction. Also here we must note that in recent years, inequality is on the rise again (though less steeply).

Thirdly, inequality and poverty do not necessarily move in tandem. While poverty levels fluctuate significantly, our inequality line remains strangely flat. This implies that the strategy of attempting to improve the income distribution via poverty reduction alone – even where the latter is effective – is not necessarily a sufficient recipe for success. For instance, the late 1990s saw a massive increase in poverty with a parallel decrease in inequality, while in the mid 2000s increases in inequality went hand-in-hand with a decrease in poverty. Clearly, therefore, explicit anti-inequality policies would be required as well, which so far have not been on the agenda.

Prima facie, it seems thus that the goals of poverty reduction and growth generation, while having seen some progress for short periods, show limited success and sustainability. Judging the advances of inequality, on the other hand, requires taking a closer look at the distribution of the gains through GDP growth over recent years. This is what we set out to do in the remainder of this paper. Our guiding questions are: How has the distribution of income evolved in these decades – among individuals and between wages and rents or profits? How much of its evolution is determined by economic or social policies? And how can such inequality be perpetuated and collectively accepted in face of vast poverty? To address these questions, we will look at the

minimum wage policy and how different political actors and social groups have reacted to the struggle that has taken place in Mexico since May 1<sup>st</sup> 2014 to raise the minimum wage to a level sufficient to at least meet basic needs, as stated by the Mexican Constitution of 1917.

The aim of the paper is thus threefold. The first is to examine the evolution of economic inequality in Mexico in the last three decades, both in terms of the personal distribution and the functional distribution of income (Section 2). For this purpose we build and analyze alternative indicators, among them the Gini coefficient, the 'Palma' ratio, as well as the share of wages relative to rents/profits. The second purpose of our paper is to analyze the relation between the evolution of the functional distribution of income, employment and labor policy, with special emphasis on minimum wage policy (Section 3). Finally our third objective, closely linked to the previous two, is to examine the institutional context as well as the ideological and political economy considerations that have marked minimum wage policy in Mexico (Section 4).

## 2. The Evolution of Income Inequality in Mexico in the Last Three Decades

Let's first consider the personal distribution of income.

**Table 1: Income Per Capita in Mexico, 2012 (in local currency units)**

<i>Deciles</i>	1	2	3	4	5	6	7	8	9	10
<i>Income (MXN)</i>	461	887	1180	1488	1843	2216	2742	3505	4906	12412
<i>Share (%)</i>	1.5	2.8	3.7	4.7	5.8	7.0	8.7	11.1	15.5	39.2
<i>Distance to decile below (%)</i>	--	52.0	75.2	79.3	80.7	83.2	80.8	78.2	71.4	39.5
<i>Gini</i>	0.49	<i>D1-D4 (%)</i>	12.69							
<i>Palma</i>	3.09	<i>D5-D9 (%)</i>	48.14							
<i>Mean (MXN)</i>	3164	<i>D7-D9 (%)</i>	35.25							
<i>Median (MXN)</i>	2030	<i>D10/D1</i>	26.92							

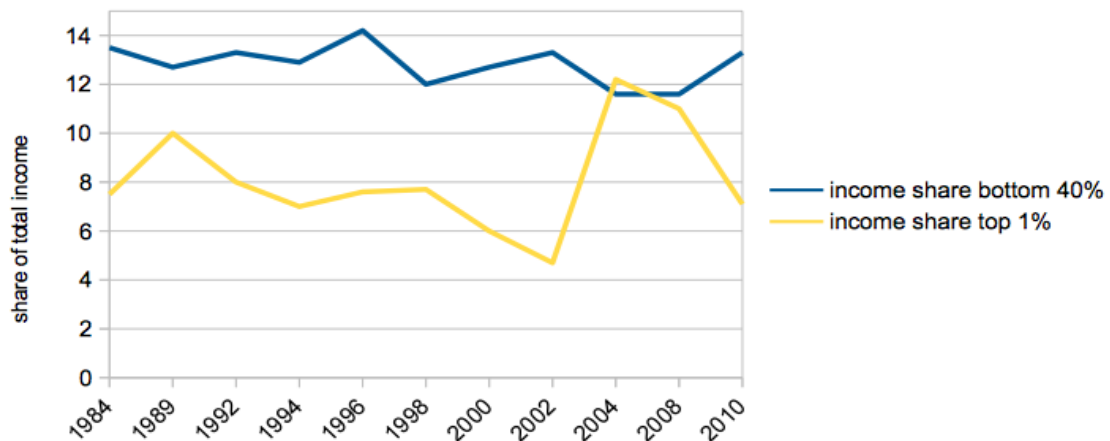
Note: the Gini Coefficient for 2012 was 0.49, the 'Palma' indicator – i.e. the ratio of the top 10% income earners to that of the bottom 40% – was 3.09; the mean income was Mx\$3,164 and the median one Mx\$2,030.

Source: Krozer and Moreno-Brid (2014)

Today, there is an almost 27-fold difference between the average incomes of the top and the bottom deciles in Mexico. This difference is in stark contrast with the average ratio of 10 to 1 in the OECD countries (OECD 2014). More worrying, the top 1% of Mexico's distribution has an average annual income 47 times that of the poorest 10% (Del Castillo Negrete Rovira 2012). How has this relation been affected by the far-reaching reforms of the last three decades? Mapping out the income share of the top 1% against that of the bottom 40% (see Figure 2), we find that both the bottom 40% and

the top 1% maintain the same share of total household income in 2010 as they had in 1984. Thus, any potential increases in returns to education, or transfer income, for the lower income groups must have been matched by income increases in the top, keeping inequality levels high. Moreover, it is remarkable how close the top and bottom dynamics mirror each other, i.e. when the top percentile gains in share, it is to the detriment of the bottom group, while increases in the bottom translate into losses at the top.

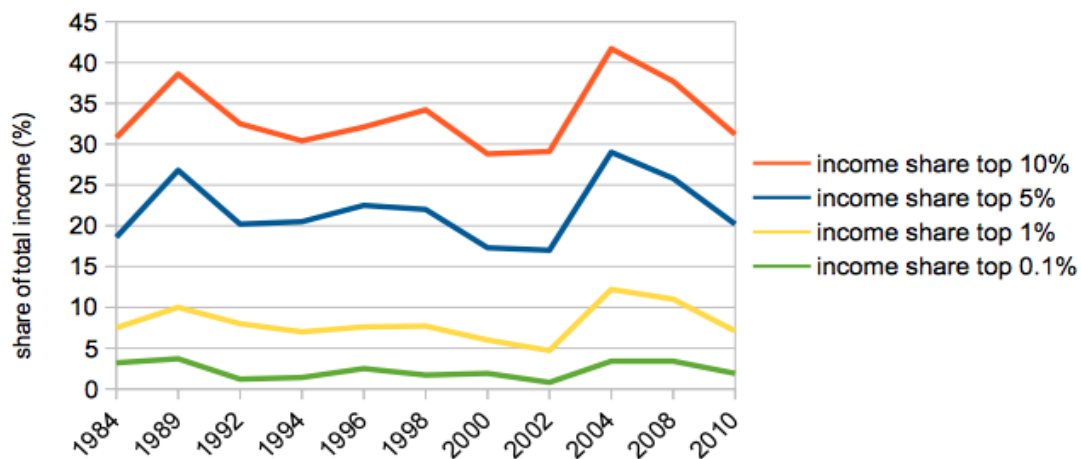
**Figure 2: Income shares bottom 40% and top 1%, Mexico 1984-2010**



Source: authors' elaboration based on data from LIS (2015)

Zooming in even closer (see Figure 3), it becomes apparent that the dynamics at the high-end are driven by changes at the very top; the richest decile essentially amplifies the underlying movement of the super-elite, the richest promille, like a wave approaching the shore.

**Figure 3: Top Income Groups in Mexico, 1984-2010**



Source: authors' elaboration based on data from LIS (2015)

We can see that the data show that since the early 2000s, and particularly after the financial crisis in 2008, the highest decile lost some ground relative to its peak of holding almost 42% around 2004 (though never falling below 30% of total income, three times the size of their population share and a level already obtained in the 1980s). However, the loss that the very top promille had to endure was much less significant. Equally, the large changes during the last decade need to be considered against the backdrop of the official discourse of the time, stressing decreasing inequality in the country due to the spread of education and conditional income transfer programs mainly, but also as a bonanza of the economic liberalization, market opening and privatization having taken place in the two decades before.

Recalling our “flat” line in Figure 1, however, it seems that the indicators used to corroborate that narrative – primarily the Gini coefficient – were unable to pick up on the more subtle movements at the very extremes. This is not the indicator's fault (which is very useful for some purposes) but due to the ready acceptance by a wider audience of a useful fairytale of economically and politically cheap policy spreading the goods of globalization and technological change to the masses, trickling down from the productive top to the persistently existing bottom by themselves – told and propagated by an elite intoxicated of their own enrichment success.

Even if there had indeed been a slight reduction of inequality in the years up to 2010, levels are deteriorating again thereafter. And all in all, the reduction has been, in our view, insufficient. Indeed, by 2012 the overall picture depicts an economy where income is highly concentrated, and the bottom 40% not only holding essentially the same income share as three decades earlier, but also receiving only a third the size of the share going to the top decile.

### ***2.1. Functional Distribution of Income***

We consider now the functional distribution of household incomes, which might give some insights as to the underlying drivers of this persistence in income inequality. For that, we divide household income into its labor, capital and transfer components. Obviously, the distribution of capital incomes is vastly more unequal than that for labor incomes, which again is more unequal than that of transfers. Overall, the total household disposable income distribution resembles that of labor income, because this factor is by far the largest source of income for all units, with the exception of the bottom decile, where transfers are important (over 60% in 2010, up from just over 20% in 1984). Again excluding the bottom decile, in which there are numerous cases of negative income (i.e. de-saving), labor income on average amounts to over 76% (in some years close to 100% for some groups) of total income, compared to transfer income reaching 20%, whereas capital lies

between 0.6-1.5% up to the 9<sup>th</sup> decile (rising to 7.5% when the top promille is considered).

Although this general pattern is maintained, and, as Table 2 shows, the Palma for transfer and capital income is slightly lower in 2010 compared to 1984 – i.e. the related distributions are slightly more equal – it is preoccupying that the distribution for labor income is considerably more unequal now than 25 years ago, both in terms of the Palma and its derivative Palma v.2 (dividing the income share of the top 5% to that of the bottom 40%'s).

**Table 2: Income Shares and Palmas in Mexico, 1984 and 2010**

	<b>2010</b> Bottom 40%	Top 10%	Top 5%	Palma v.1	Palma v.2
<i>Disposable Income</i>	13.3	31.2	20.2	2.346	1.519
<i>Labour Income</i>	10.5	32.4	20.9	3.086	1.990
<i>Capital Income</i>	7.6	52.5	39.1	6.908	5.145
<i>Transfer Income</i>	26.5	24.4	15.1	0.921	0.570
	<b>1984</b> Bottom 40%	Top 10%	Top 5%	Palma v.1	Palma v.2
<i>Disposable Income</i>	13.5	30.8	18.6	2.281	1.378
<i>Labour Income</i>	13	30.6	18.1	2.354	1.392
<i>Capital Income</i>	6.8	52.6	40.8	7.735	6.000
<i>Transfer Income</i>	22.3	22.8	14.3	1.022	0.641

Source: authors' elaboration based on data from LIS (2015)

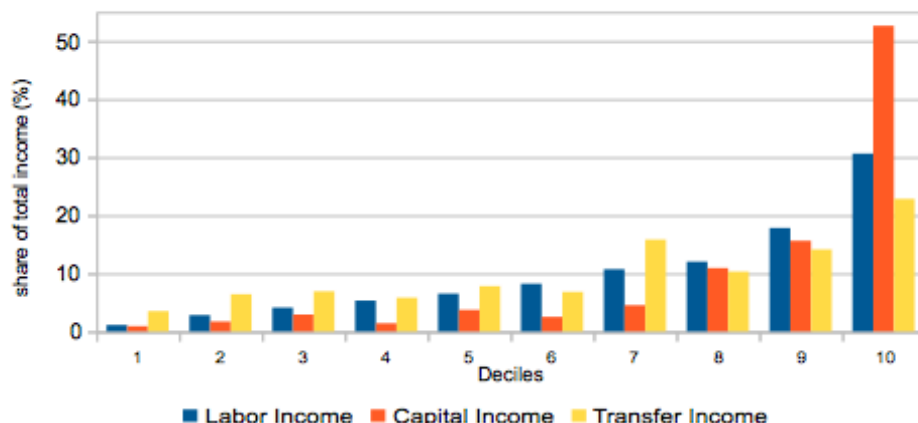
In combination with consistently low Mexican unemployment numbers (below 5%), this means that wages – the major income of income for most of the population – must increase faster at the top than at the bottom. Thereby, labor earnings are increasingly accruing to the top end of the income distribution, leaving the poor to struggle with ever smaller shares of the income pie.

How is factor income divided among the population? When ordering the factor shares according to population groups in Figure 4, we can see that the bottom decile virtually stops featuring in the labor income share all together (in fact, in 2010 it became negative 0.1%), while the top decile gains ground. The other two groups losing share are the second and second-to-last deciles. Interestingly, the distribution of transfers is much flatter in 2010 compared to 1984 – the first and fourth deciles receive a somewhat larger share, but so does the highest decile.

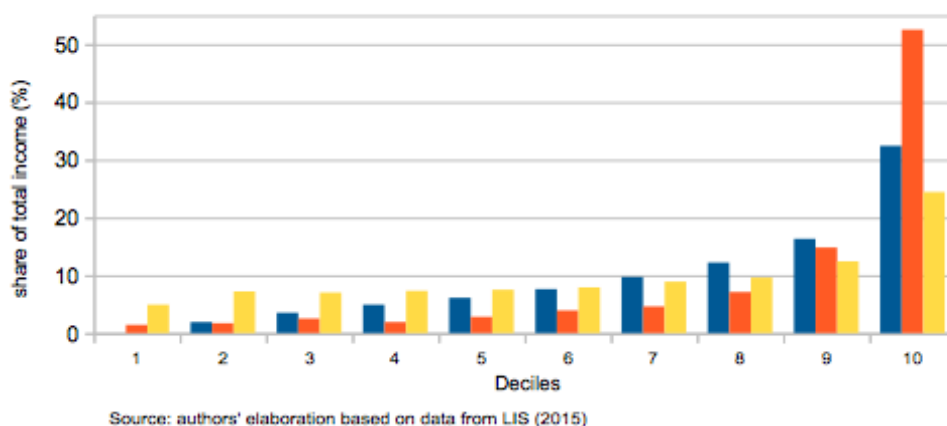
Thus, while both transfers and capital income are slightly more equally distributed in 2010 compared to 1984 (though inequality is still very high), labor income is more unequal now than three decades ago. Moreover, the bottom decile, which allegedly benefited most from the transfer programs, has seen its share of total income deteriorate continuously over the past three decades, to

a 2010 level of but 0.8% of total income, according to LIS data.

**Figure 4 A: Functional Income Distribution, Mexico 1984**



**Figure 4 B: Functional Income Distribution, Mexico 2010**



### 3. Interactions between Inequality Dynamics, Minimum Wage and other Key Policies

The loss of labor income share of the bottom two income deciles can be directly linked to the development of wages in the country, and particularly to trends in the minimum wage. Although Mexico has been historically unequal, the current distribution is by no means an outcome of a force of nature or a necessary consequence of its colonial legacy.<sup>1</sup> Yes, Mexico was unequal in Pre-Hispanic times, and even more so during the 300 years of Spain’s colonial reign. Equality was an inspiration for independence and subsequent struggles. More economic equality for peasants and workers was a key demand of the Mexican Revolution in 1910.

Notwithstanding, there have been periods towards greater equality in Mexico. For example,

<sup>1</sup> The following part is based on Krozer & Moreno-Brid (2014)



prior to 1976, there was a relatively stable relationship between productivity growth and wage growth in manufacturing (Palma 2011). Their subsequent delinking under trade liberalization meant that increasing export competitiveness had little effect on living standards (ibid). In fact, by the end of the 1990s, the average wage was only just recovering to its 1976 level, although productivity had increased by about 80% in the meantime; in the same period, the real minimum wage fell 80%, and the share of wages and salaries in GDP fell from 40% to 18.9%. Profit margins greatly increased. And, all this coupled with several economic crises weakened organized labor's bargaining power. According to Palma (2011), this "liberalization package" decoupling wages and productivity is the result of political-ideological change in the 1980s. In addition, the abrupt economic slowdown in the aftermath of the oil crisis vastly deteriorated the labor market.

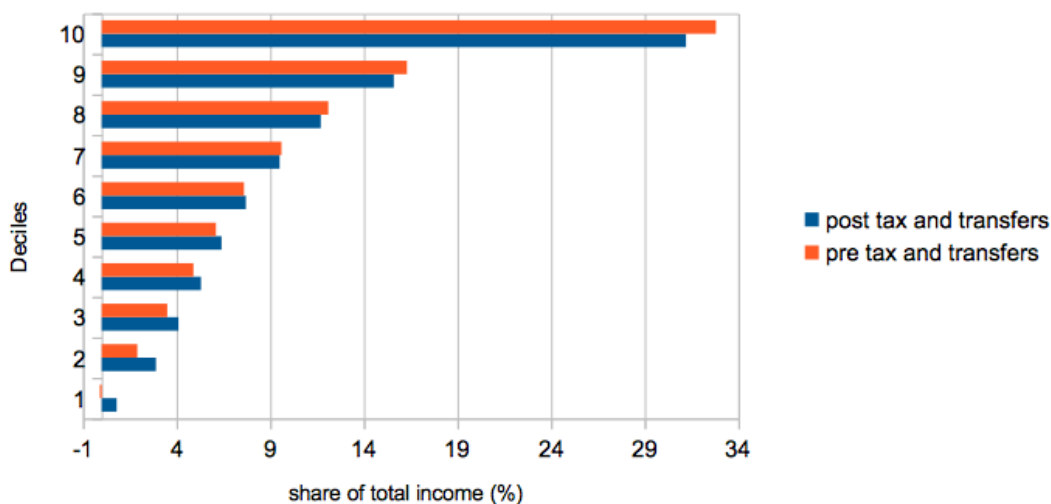
Thus, two decades of deep reforms aligned with the Washington Consensus – the 1980s and 1990s – contributed to stabilize a tendency to reduce the share of wages in national income. The political transition from its traditional one-party ruling authoritarian regime towards a more consolidated electoral democracy has not altered this. On the contrary: as Figure 4 shows, the distribution of labor income is even more unequal today than in the early 1980s.

A number of social programs were created targeted to poor population to compensate for their lack of sufficient labor incomes. The star among them has been *Oportunidades* (now *Prospera*), a pioneer conditional cash transfer program to poor households in return for obligatory schooling and health checks. There are other programs, akin to non-contributive pension schemes such as "Seventy and More" and the Universal Elderly Pension in Mexico City to benefit the elderly. As indirect targets, they include the improvement of the income distribution; their primary and direct focus remains on poverty reduction. These programs do have a progressive, albeit small, influence on income distribution. However, their partial success seems to have managed to distract from the disaster of the wage share declines at the lower bound evidenced above.

Contrasting with these programs is the fact that tax policy in Mexico fails to have a significant influence on income redistribution. Indeed, most OECD countries with not markedly dissimilar pre-tax income distributions manage to almost halve the GINI coefficient in the post-tax income distribution. However, Mexico's redistributive capacities through taxes are significantly less effective. In addition they have declined considerably since the 1960s, to the extent that during the last two decades, on average they have been unable to lower the country's Gini vis-à-vis its pre-tax levels (Krozer and Moreno-Brid 2014). As Figure 4 shows, overall fiscal policies today are ill-suited to change this picture to any significant degree: the difference, i.e. progressive impact,

between the pre- and post-tax and transfer distribution is only above 1% for the highest decile (reaching 1.6%) – although if the top 5% are considered instead, this difference shrinks to 1.1% again (0.9% for the bottom decile).

**Figure 5: Impact of Fiscal Policy in Mexico, 2010**



Source: authors' elaboration based on data from LIS (2015)

In short, despite the shift in the Presidency from the PRI to the PAN and back, a massive increase in social spending as a share of GDP, including conditional cash transfers and other programs targeted to the poorest, low inflation and fiscal budgets, the implementation of NAFTA<sup>2</sup> and of a series of radical market reforms, Mexico has been unable to significantly reduce its high concentration of income. As mentioned above there are certainly historical roots that explain the magnitude of the challenge, but in our view, the main reason behind the prevalence of such stark inequality is the lack of political will by relevant actors to change the situation. For some this reflects the assumption that economic growth will by itself alleviate poverty and inequality. For us it seems more likely that the ones on top, the 1% or even lower percentage, refuse to lose in any significant way their economic and social privileges, blocking any relevant measure oriented towards a more progressive distribution of income.

Indeed, for a long time the focus of the debate around minimum wages was that Mexican productivity levels did not allow for higher wages. This argument can be conclusively debunked with one look at the development of productivity and minimum wages, respectively (see Figure 6).

<sup>2</sup> North American Free Trade Agreement signed in 1993. Mexico is one of the most open economies in the world, having signed over 40 free trade agreements.

**Figure 6:**



Source: Moreno-Brid and Garry (2014).

As such, rather than being an inevitable and unescapable destiny, there are political, ideological and economic considerations behind the fact that labor policy in Mexico has allowed a persistent and major deterioration in minimum wages to the extent that their value in real terms is today 70% lower than in 1980 and way below the line of absolute poverty. Clearly, productivity would allow for significant increases in minimum wage levels. In fact, when comparing Mexican minimum wage levels and productivity to the rest of Latin America it is striking that it is one of the countries with highest productivity levels (second only to Chile) and but also one with the lowest minimum wages ahead only of Bolivia and Nicaragua, two countries with significantly lower levels of economic development (Moreno Brid and Garry 2014). This debate shows that significant weight needs to be attached to the highly ideological and political content of the adverse reactions to changes in minimum wage policy as opposed to technical objections. Considering the low cost and easy-applicability of new minimum wage policies (among many other possible measures in the labor market) for income equality, the main reason behind the reluctance and failure to apply equalizing policies is the lack of political will by key political actors to change the situation, as will be illustrated in the following section.

#### **4. The Political Economy of Minimum Wage Setting in Mexico**

Since the 2008-09 international financial crises, the external market stopped being a dynamic engine of growth of the Mexican economy. Thus, strengthening its domestic market has become a requisite to stimulate its economic expansion. Until last year, when the discussion started to gain

impetus again following an appeal by the government of Mexico City to revive the debate, minimum wages were a non-topic.

It was originally Mexico City's Mayor, Miguel Angel Mancera who, in May 2014, proposed to increase the minimum wage to comply with Article 3 of the Mexican Constitution (Melín 2014).<sup>3</sup> Since then, the initiative has gained such momentum that, as the journalist Carmen Aristegui expressed, it can hardly be considered an idea championed by leftist or opposition parties only. Instead, forces from across the political spectrum, in apparent agreement, have participated in a race to see which of them can take most credit for bringing the topic back onto the public agenda (CNN 2014). The right-wing PAN, who designed an alternative proposal shortly after Mancera's,<sup>4</sup> has since then made a constant effort to defend the originality of its program. The party's leader, Gustavo Madero, declared that the PAN had not "stolen" the idea from the PRD (Padilla 2013),<sup>5</sup> but had in fact contemplated it since 2012, when it was "included in its electoral platform". Currently his party is also the one with most advertisements advocating minimum wage increase.

In a similar manner, the governing centrist PRI has had to fight off allegations accusing it of joining the campaign for a higher minimum wage belatedly. Notwithstanding, the party's president in Mexico City, Mauricio López Velázquez, denied that the PRI's or federal government's entrance to the discussion was overdue; on the contrary: according to him, President Peña Nieto (a PRI member) had been committed from the beginning of his administration to an "income increase for Mexican families". Mexico's Secretary of Finance and Public Credit, Luis Videgaray, in turn established in August 2014 that the "government's stand on the issue was very clear: they would support the debate and an increase of the minimum wage, as long as they weren't politicized" (Gómez 2014). All this makes for a peculiar political landscape: how often does something as controversial as an increase of the minimum wage go uncontested by any of the major political parties?<sup>6</sup> Arguably most of them had an interest in joining the discussion of a higher minimum wage in the face of the forthcoming June 2015 elections. As Javier Lozano, former Secretary of Labor and a PAN member put it: who wouldn't

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3 Mancera's was the first initiative to formally propose an increase of the minimum wage (See Gobierno del Distrito Federal, 2014). However, in late 2013 the PRD's parliamentary group in Congress had promoted the dissolution of CONASAMI, the federal Minimum Wage Commission. According to congressmen Miguel Alonso and Alfonso Raya the minimum wage was "such a mockery" that CONASAMI should have ceased to exist (Melín 2014).

4 The PAN differed from the PRD in suggesting that a popular referendum be carried out; this, the party argued, because of their lack of a majority in congress, leaving them no alternative but to seek popular support to avoid a veto from the majority party, the PRI.

5 "Let no one say that we are improvising or borrowing ideas from other parties", said Gustavo Madero, the party's leader. Later on he would also say that the idea of a dignified wage was part of his party's doctrine since 1939.

6 Of course, there was some dissent within political parties. In the case of the PRI, Abraham Zamora from the Finance Ministry insisted that it is through a rise in productivity of capital and labor that workers would see sustained increases in their wages, not through decrees. Within the PAN, one notorious party member and former Secretary of Labor, Javier Lozano, called the initiatives a "trendy occurrence" or the "fad of the moment".

want or support a higher salary? As such, the struggle to raise the minimum wage implied, among other things, political capital.

This becomes the more apparent when considering the moment that President Peña Nieto chose to get involved in the discourse himself. On November 27<sup>th</sup> 2014, at the two-month anniversary of the disappearance of 43 students from Ayotzinapa in the state of Guerrero (who remain unbound to this day), he disclosed a plan for the de-indexation of the minimum wage, which in Mexico is tied to a plethora of administrative measures, such as the level of fines and political parties' allotments, among others. This indexing means that any change in the level of the minimum wage brings with it rises in the level of these other items as well, creating widespread discomfort among many different sectors of the population. Peña Nieto's speech on that day was intended to reassure people and guarantee justice and security after one of the worst crises of the current federal administration, but then incorporated the by already popular demand for tackling the minimum wage issue. Eventually, despite disagreements on the particularities of how to carry out an increase of the minimum wage in terms of policy, all parties seemed to rally around the need for its de-indexation (Barrios Fuentes 2015). This administrative-cum-legal measure is needed so that the discussion on its raise could be held without the pressure generated by the wage's coupling with other legal dispositions.

Along with a first proposal designed by scholars from Mexico's National University UNAM and the research center CIDE, there were three further initiatives: one presented by the Executive in December, another, from the parliamentary groups of four parties (PAN, Movimiento Ciudadano, PT and PRD) in September, and the last one, proposed by Congressman Julio César Moreno of the PRD. The lower House of Congress approved de-indexation on December 10<sup>th</sup> 2014, borrowing from and modifying the proposals of the President, parliamentary groups and that of Julio César Moreno (Cámara de Diputados 2014). The Senate, however, failed to vote the initiative on December 15<sup>th</sup>, due to the departure of the senators from the PAN as a sign of protest – albeit for reasons unrelated to the minimum wage.

The support for the minimum wage did not go entirely uncontested, however. There was some rejection, such as the one predictably expressed in August 2014 by Juan Pablo Castañón, president of the Mexican Employers' Confederation, as well as that from Juan Manuel Chaparro, a member of the Mexican Chamber of Industry (Canacintra). His arguments echo those expressed by most opponents: “If the goal is to improve the income of workers and employees, this should be attained through productivity [...] We industrialists are more consenting of productivity as a means for the betterment of wages than doing so by political decree” (Luna 2014). Others expressing similar views include the

governor of the Bank of Mexico, Agustín Carstens, saying that “non-economic solutions” to low salaries, such as an increase of minimum wage by decree, could lead to inflation, unemployment and more informal labor. Meanwhile the chief of the Mexican Taxation Authority SAT, Aristóteles Nuñez, stated that, to better workers' incomes, an increase of the minimum wage would be futile, since “the only way we can obtain this is through more productivity and profitability, because if the worker manages to be more productive, and the employer acknowledges it, there will be an incentive to raise his salary” (Verdusco 2014). We have seen above that this has not been the case: reluctance to increase the minimum wage continues despite the growth in productivity (See Moreno Brid and Garry 2014)

The most surprising thing about the recent political struggle concerning the minimum wage in Mexico, however, is the fact that it has evolved with no conspicuous manifestations of support from the working classes and other public sectors.<sup>7</sup> Indeed, the struggle has been carried almost in its entirety by certain members of the political class, most noticeably by Mancera and the Secretaries of Economic Affairs and of Labor of Mexico City. Perhaps the most startling evidence of this is the fact that, in August 2014, the country's Secretary of Labor, Alfonso Navarrete Prida, along with Mexico's most important union and entrepreneurial leaders, made a stand against Mancera's proposal by signing a joint pronouncement that, firstly, acknowledged the incapacity to substantially improve working conditions or reduce poverty in the last 30 years and, secondly, stated:

It is necessary for this country to undergo sustained economic growth and to remedy the problem of poverty and low income through productivity and the reduction of informal labor [...] we salute the public discussion of an increase to worker's incomes and particularly to the minimum wage but would like to make it perfectly clear that [...] this discussion must necessarily consider the increase of productivity and its benefits [...] this is the only way we can prevent the reoccurrence of certain past mistakes that taught the country, its employers and workers painful lessons.<sup>8</sup>

Among those signing the statement were the leaders of the the most prominent and important labor unions of the country, including those of the Confederación de Trabajadores y Campesinos (CTC), the Confederación Regional Obrera Mexicana (CROM), the Conferederación Revolucionaraia de Obreros y Campesinos (CROC), and the Confederación de Trabajadores de México (CTM).

This political curiosity becomes even more bizarre when looking at the related public assertions by other prominent individuals. The influential founder of conglomerate Grupo Bimbo and one of the country's richest multi-millionaires, Lorenzo Servitje, for instance, is known for his

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<sup>7</sup> Some statements can be found in the press, like a headline that reads “We will double our struggle to obtain a better minimum wage: CTM”. Notwithstanding, public manifestations and rallies, have been scarce, if not completely absent.

<sup>8</sup> Alfonso Navarrete Prida, responsible for labor politics in Mexico, would reiterate these views on March 30<sup>th</sup> 2015 in the national newspaper La Jornada.

previous critical positions towards left-leaning policies and the working class (Monsiváis 2006). Nevertheless, in July 2014 Mr. Servitje wrote in a newspaper column that the Mexican minimum wage was “ostensibly low and insufficient to satisfy the needs established by the Constitution – an unfair situation that should be corrected as a moral obligation”, concluding that it would be both timely and fortuitous to further explore the option of raising its level (Servitje 2014).<sup>9</sup>

Other unlikely figures, such as Carlos Capistrán, chief economist of Bank of America-Merrill Lynch in Mexico, declared that an eventual increase of the minimum wage was “probably inevitable”, although he also warned of the risks that augmenting its level might pose for inflation and unemployment rates (Miguel Tenorio 2014). Finally, economists from the Spanish-owned bank BBVA Bancomer wrote a document entitled “Considerations of BBVA Research concerning the Minimum Wage” (BBVA Bancomer 2014), where they insisted on the familiar argument that “the only way to increase worker's wages continuously is through better productivity.” However, the document also stated that it is advisable, based “on ample international evidence”, not only to increase the minimum wage but to do so in a single occasion, as opposed to a gradual, periodic, increase. Indeed, BBVA Research's head economist, Carlos Serrano, considered in a press conference that the Mexican economy not only had the capacity to raise minimum wages without affecting job creation or causing a surge in inflation, but could use it as a tool to combat poverty (Carbajal 2014).

This cross-cutting panorama of support and resistance to changes in the minimum wage structure beyond the traditional positions (including, prominently the lack of support by unions, at least at first) is peculiar, considering the fact that Mexico's minimum wage is among the lowest in Latin America. As stated above, in 2011 its monthly rate in dollars (US\$112) was similar to Nicaragua and Bolivia (US\$117), and equivalent to only one-third that of Brazil, Chile, Uruguay and Ecuador (Moreno-Brid and Garry 2015). This corresponds to only 15% of Mexican GDP per capita – the lowest proportion in nearly all of Latin America, and far from the 30% of GDP per capita in Chile and Brazil and the nearly 50 % of GDP per capita in Peru, Colombia and Costa Rica (ibid). Moreover, Mexico is the only country where at the end of the previous decade, the value of the minimum wage is underneath the poverty line (ECLAC 2014), and according to the International Labor Organization's (ILO) Global Wage Report 2013, below market levels, even for unskilled workers.

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<sup>9</sup> Servitje proposed a gradual raise in the minimum wage, an image taken up by the PAN thereafter in its campaign called “dignified salary for workers” (*salario digno al trabajador*).

## 5. Conclusions

Mexico's quest for high and sustained economic growth during the last three decades has been elusive. As we showed in this paper, Mexico's income gap vis-à-vis the United States is wider today than three decades ago, poverty affects a substantial proportion of the population, and inequality has not declined in a significant way from its alarmingly evident levels. In this regard, the market reforms put in place in the aftermath of the oil bust in 1982 have been a success in stabilization, leading to a low inflation and a small fiscal deficit – but a complete failure in boosting Mexico's long term economic growth.

The slowdown in foreign trade and growth in the OECD brought about by the international financial crisis of 2008-09 poses a major challenge to Mexico development and, actually, for Latin America in general. Indeed, given such a weak external demand, Mexicans cannot expect that an export-led growth strategy has any probability of success unless it is complemented by a strategy to expand and exploit the domestic market. This option is simply out of the question in societies with such an acutely unequal distribution of income and wealth.

However, the ruling elite in Mexico is reluctant to face this reality, and seems unwilling to put in place policies explicitly oriented to have a more progressive distribution of income. Moreover, the country's institutional system has been marked for some time by the remarkable capacities of the ruling classes to co-opt union leaders away from any political movement or even fiscal initiative to create a more equal economy and society. They have so far succeeded in the last 13 months in blocking the initiative to de-index and to raise the minimum wage. Such 'success' is to be sadly regretted, not only on social and ethical grounds, but on economic grounds too.

Raising the minimum wage to an acceptable level would have been a great step towards placing inequality as a major concern, a priority in Mexico's policy making agenda. Sooner or later this will have to happen if Mexico's struggle for growth and equality is to materialize. One would like to think that now that the mid-term elections have taken place in Mexico, the Senate House will finally approve the minimum wage initiative and start tackling seriously the enormous challenge that inequality poses for our future as a civilized society. Time may be running out to just wait and see.



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